



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Oakland Field Office – Audit Division
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Oakland, California 94607-4052

August 13, 2003

MEMORANDUM

TO: Jeff Griffin
Regional Director
FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico
Field Office Director

SUBJECT: Los Angeles County
Los Angeles, California
Public Assistance Identification Number 037-00000
FEMA Disaster Number 942-DR-CA
Audit Report Number DO-19-03

The Office of Inspector General (OIG) audited public assistance funds awarded to Los Angeles County, Los Angeles, California (County). The objective of the audit was to determine whether the County expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The County received an award of \$21.9 million from the California Office of Emergency Services (OES), a FEMA grantee, for damage resulting from fires during a period of civil unrest, which occurred from April 29, 1992, through May 26, 1992. The award provided for 75 percent FEMA funding for 15 large projects and 13 small projects.¹ The audit covered the period April 29, 1992, to September 15, 2000, and included the review of five large projects with a total award of \$19.3 million (see Exhibit).

¹ Federal regulations in effect at the time of the disaster defined a large project as one costing \$40,000 or more and a small project as one costing less than \$40,000.

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included review of FEMA, OES, and County records, tests of the County's accounting records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The County's claim included questionable costs of \$742,634 (FEMA's share - \$556,976). The questionable costs consisted of \$732,127 of unsupported labor costs and \$10,507 of duplicate labor costs. Additionally, as discussed below in "Other Matters", the OIG found \$265,515 of eligible labor costs that were not claimed by the County. The "Other Matters" section of this report also points out that the County needs to ensure that supporting documentation is retained for the period specified in federal regulations and that potential insurance recoveries from property owners are pursued rather than relying on FEMA funding.

Finding A - Unsupported Labor Costs

The County's claim for project 71142 included \$732,127 of unsupported labor costs (\$251,473 for regular time labor and \$480,654 for overtime labor). For this project, the County claimed \$2,439,013 for costs incurred due to emergency response to fires that resulted from civil unrest. Of that amount, \$1,821,961 was for firefighter labor costs. The County derived labor costs from employee time cards based on hours charged during the incident period. However, the time cards, generally, did not distinguish whether an employee's labor was related to the disaster or other firefighting duties. Consequently, the OIG determined that the \$1,821,961 claimed for firefighter labor costs was not adequately supported by the employee time cards to prove that claimed labor costs were disaster related.

The OIG requested alternative sources of documentation to validate the County's unsupported claimed costs. The County provided Incident Activity Records (IARs) that recorded when fire crews and engines were dispatched to and returned from firefighting duties. The employee's name (Employee Identification Number), date, location, and hours worked from the IARs were compared with similar data in summaries of employee's time cards. This comparison showed that the IARs did not support \$732,127 of claimed labor costs.

According to Title 44, Code of Federal Regulations, Section 13.20(b)(6) [44 CFR 13.20(b)(6)], grant recipients are required to maintain records and source documents such as payrolls and time and attendances records for the purpose of identifying how FEMA funds were spent. In addition, 44 CFR 206.223(a)(1) and (2) indicate that for an item of work to be eligible for financial assistance, it must be required as a result of the disaster and be located

within the designated disaster area. Because the County could not adequately identify how and where all FEMA funds were used, or show that all claimed costs were disaster related, \$732,127 of the labor costs claimed on project number 71142 was questioned.

Finding B - Duplicate Labor Costs

The County's claim included \$10,507 of duplicate labor costs (\$7,853 regular time and \$2,654 for fringe benefits). The County claimed \$123,786 on project 22528 for employee labor costs at the County's Emergency Operation Center (EOC). In the process of determining whether EOC labor costs were supported, the OIG compared IARs with similar data in the employee's time cards, as discussed above in finding A. This comparison showed that \$10,507, related to labor costs for one firefighter on loan to the EOC, was also claimed on project number 71142. Therefore, the \$10,507 claimed by the County for labor costs on project number 71142 resulted in a duplication of benefits and was questionable.

OTHER MATTERS

Finding C - Unreimbursed Labor Costs

The OIG found \$265,515 of labor costs that were not submitted by the County to FEMA for reimbursement (\$153,755 for regular time labor and \$111,760 for overtime labor). As discussed in Finding A, the OIG requested alternative sources of documentation to validate the County's unsupported claimed costs and the County provided IARs. In some instances the IARs supported more employee hours worked than in summaries of employee's time cards. Therefore, \$265,515 of additional costs supported by IARs would have been eligible for FEMA funding had those costs been claimed at closeout. The total additional supported labor is computed below:

Type of Labor Costs	Additional Costs Supported by IARs
Regular Time	\$ 98,469
Productive Hourly Rate at 16.7%	16,444
Fringe Benefits Rate at 33.801%	<u>38,842</u>
Subtotals	\$153,755
 Overtime	 \$106,380
Fringe Benefits Rate at 5.057%	<u>5,380</u>
Subtotals	\$111,760
 Totals	 <u>\$265,515</u>

This finding is provided for informational purposes only and does not suggest that additional funds be provided to the County. The decision to disburse additional funds rests solely with

FEMA Region IX based on a County request for FEMA to reconsider claimed costs based on IAR supporting documentation.

Finding D – Records Retention Requirements

The County did not retain the documentation supporting its claim for the period specified in federal regulations. The County claimed \$1,380,233 on project 46754 (\$1,376,850 for labor and \$3,383 for equipment usage) for costs incurred by the Marshal's Department for 24-hour security at 37 County Courthouses. In the process of determining whether project costs were supported, the OIG was informed that no records could be located to document these costs. The County also informed the OIG that in 1994, the Marshal's Department was incorporated into the Sheriff's Department; however, Sheriff's Department officials had no knowledge as to the whereabouts of the records supporting the County's claim.

According to 44 CFR 13.20(b)(6), grant recipients are required to maintain records and source documents such as payrolls and time and attendances records for the purpose of identifying how FEMA funds are spent. In addition, 44 CFR 13.42(b), (c), and (e) require subgrantees to retain supporting documents for 3 years after submission of the final expenditure report and to make such documents available for the purposes of audit. The County's Project Completion and Certification Report was dated May 1999, thus setting the records retention period to May 2002. Since this audit began in August 2001, supporting documentation should have been retained and available for audit.

Strictly speaking, the \$1,380,233 was questionable since supporting documentation was not available for audit. However, OIG and County officials mutually agreed that while the claim was unsupported, the work was completed and eligible for FEMA funding. Nonetheless, while the work was eligible, the OIG was unable to determine if all costs claimed were eligible. Because this disaster occurred in 1992, the OIG is not recommending disallowance of the unsupported costs. Rather, the OIG recommends that the Regional Director, FEMA Region IX advise the County of the requirement to retain source documentation for the required retention period and that failure to do so can result in disallowance of all or part of the cost of those activities not in material compliance with the regulations [see 44 CFR 13.43(a)(2)].

Finding E – Potential Insurance Recoveries

The County had no evidence that it pursued insurance recoveries as agreed to at the time of the disaster. The County claimed \$2,528,301 on project 71143 for costs incurred by the County's Fire Department, Hazardous Material Division to inspect burned sites, identify hazardous material, and abate, remove, and dispose of such material. While costs claimed were supported, the County had no documentation that it recovered any insurance payments to property owners who benefited from the County's hazardous materials cleanup.

FEMA and OES officials met on May 6, 1992, to discuss program funding of debris removal (including hazardous material) and agreed that it was the subgrantees' responsibility for determining the status of property insurance on a lot-by-lot basis. FEMA agreed to assist the subgrantees by preparing a questionnaire for their use in obtaining insurance information from property owners/tenants. FEMA and OES officials stated that in order to recoup insurance and other proceeds, it was assumed that subgrantees would bill property owners for some, if not all, costs of demolition and debris and hazardous material removal. The OIG reviewed FEMA, OES and County records and found no documentation indicating that: (1) FEMA prepared a questionnaire for use in obtaining insurance information, (2) OES followed up with the County regarding insurance recoveries, or (3) the County made an effort to identify and recover insurance payments to property owners/tenants.

According to Section 312(c) of the Stafford Act, a person receiving Federal assistance for a major disaster shall be liable to the United States to the extent that such assistance duplicates benefits available to the person for the same purpose from another source. Therefore, failure to bill property owners and collect for actual hazardous material cleanup costs likely resulted in the non-recovery of insurance benefits which would be contrary to the provisions of the Stafford Act. Because the disaster occurred in 1992, the County did not close its application until 1999, and FEMA, OES, and the County failed to sufficiently follow up on this issue, it was not possible to determine what insurance payments should have been recovered. Nonetheless, OES and the County should be made aware that failure to materially comply with the provisions of the Stafford Act can result in disallowance of all or part of the cost of those activities not in material compliance with the regulations [see 44 CFR 13.43(a)(2)].

RECOMMENDATIONS

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES:

1. Disallow \$742,634 of questionable costs.

The OIG also recommends that the Regional Director, FEMA Region IX:

2. Advise OES and the County to retain source documentation for the retention period required by federal regulation and to pursue the insurance recoveries required by the Stafford Act and that failure to do so can result in disallowance of all or part of the cost of those activities or actions not in material compliance with the regulations or the Act.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG initially discussed the audit results with the County and OES officials on February 6, 2003. Subsequent to that meeting, the County provided additional information, which the OIG incorporated into the audit findings. On July 17, 2003, the OIG provided the County with the final audit findings. While County officials stated they understood the OIG's findings and recommendations, they withheld comment pending receipt of this report. The OIG also provided the audit results to FEMA Region IX officials on July 29, 2003.

Pursuant to FEMA instruction 1270.1, please advise this office by September 12, 2003, of the actions taken to implement our recommendations. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Brian Byrne, Trudi Powell, and Venetia Gatus.

Schedule of Large Projects Audited
 Los Angeles County
 Public Assistance Identification Number 037-00000
 FEMA Disaster Number 942-DR-CA

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Questioned</u>	<u>Finding Reference</u>
71142	\$ 2,439,013	\$732,127	A
71143	2,528,301	0	
46775	341,338	0	
22510	13,844,907	0	
22528	<u>123,786</u>	<u>10,507</u>	B
Totals	<u>\$19,277,345</u>	<u>\$742,634</u>	

Legend

- A. Unsupported Labor Costs
- B. Duplicate Labor Costs